

Financial Statement Instructions for Renewals

For renewals lacking financial information, the following additional information provides clarification. Also attached are the most frequently required forms to respond to pending renewals for financial information.

ATTACHMENTS

The following attachments may be needed to comply with the financial statement requirements:

Guaranty Agreement	Page 5
Line of Credit	Page 6
Worksheet	Page 7
Financial Statement (Balance Sheet)	Page 8
Lower Limit Request	Page 9

Financial statement- A balance sheet in the name as licensed, listing all of the assets and liabilities of the company holding the license, is required to renew the license.

- The balance sheet should not contain personal assets or liabilities.
- A classified balance sheet is preferred over an unclassified balance sheet.
 - Classified- separates assets and liabilities into current and non-current (long-term)
 - The financial statement must be in **exactly the same name as licensed**.
 - The balance sheet should contain a full date, including the month, day, and year.

A **self prepared or compiled financial statement** is acceptable if your monetary limit is **\$1,500,000 or less**.

Reviewed Financial Statement by an actively licensed CPA/PA is required if your monetary limit is **over \$1,500,000**.

- Must be on GAAP basis; OCBOA financials are not accepted.
- The reviewed financial statement must contain a signed report page, balance sheet and full disclosure notes. Audited financials are also acceptable. (Please have the CPA/PA provide their Accountancy License ID#)
 - If your company is a **subsidiary of another company**, the parent company must submit a guaranty agreement and a financial statement.
 - A company's financial statement should not include any personal assets or liabilities.

GUIDE TO CLASSIFYING ASSETS AND LIABILITIES

CURRENT ASSETS are cash and those assets that are reasonably expected to be realized in cash or sold or consumed **within one year** or within a business's normal operating cycle if it is longer. Generally, current assets include the following:

- Cash and cash equivalents available for current operations
- Marketable securities representing the investment of cash available for current operations, including investments in debt and equity securities classified as trading securities.
- Costs in excess of billings
- Inventories (to include materials and/or houses built for sale). Also, developed lots for sale. Raw, undeveloped land is not a current asset.
- Retirement Plans, specifically an IRA, 401K and Profit Sharing, will be allowed at 50% (**Personal IRA's not allowed on Company Financial Statement**)
- Cash surrender value of **Life Insurance** policies (Not face value of life insurance); **must attach proof** with personal statements, if not prepared by a CPA, if this amount impacts the working capital more than 50%
- Trade accounts receivable, notes and other receivables that are expected to be collected within one year
- Prepaid expenses such as insurance, interest, rents, taxes, etc.

→ Continued

The following are **not current assets**, however, since they generally are not expected to be converted into cash within one year:

- Related party or owners receivables (not allowed as a current asset)
- Cash restricted for special purposes (Restricted cash may be classified as a current asset if it is considered to offset maturing debt that has been properly classified as a current liability, however.)
- Long term investments
- Receivables not expected to be collected within one year
- Land and other natural resources
- Depreciable assets (buildings, equipment, tools, etc.)
- Prepayments or deferred charges that will not be charged to operations within one year
- *Notes receivables from stockholders

CURRENT LIABILITIES are obligations whose liquidation is reasonably expected to require (a) the use of current assets or (b) the creation of the other current liabilities. Generally, current liabilities include the following:

- Line of Credit balances and credit card balances
- Payables for materials and supplies
- Amounts collected before goods or services are delivered (billings in excess of costs)
- Accruals for wages, salaries, commissions, rents, royalties, and taxes
- Other obligations, **including portions of long-term obligations**, expected to be liquidated within one year*
 - Current liabilities do not include long term notes, bonds and obligations that will not be paid out of current assets.
 - If listing a long term liability you should classify the portion of the liability that is due within one year as a current liability. If no current portion of the liability is listed then a percentage of the liability will be classified as current for the purpose of determining the working capital.

Supplemental Financial Statements:

- You may submit a supplemental personal financial statement or parent company's financial statement, in addition to the required contractor's financial statement, to help support monetary limit.
- A "Guaranty Agreement" must be signed by the persons listed on the financial statement (including spouse); and/or company officer submitting the supplemental financial statement for corporate entity.
- These supplemental financial statements may be self-prepared or compiled
 - Working capital and net worth are calculated for supplemental financial statements
 - Working Capital is calculated for personal financial statements; these values are then decreased by 50% and added to overall working capital and net worth
 - A negative working capital or net worth is not reduced by 50%
 - Supplemental financial statements may include an investment in the contractors company; however, the board will not allow the value of the investment in the contractors company in calculating overall working capital and net worth
 - Receivables from related parties will not be counted as a current asset (this also applies to the contractor's financial statement)
 - Retirement plans will be accepted on a personal financial statement as a current asset; however, the value of the retirement plans will be reduced by 50% to account for tax liabilities.

Line of Credit

You must submit original letter of credit in board's format.

- Any changes/omissions will render the line of credit obsolete in calculating working capital.
- Line of credit will be added to overall working capital. (Does not affect net worth)
- If contractor's financial statement shows a negative working capital, the line of credit amount added to working capital is reduced by 50%

Related Party Receivables (related party/owner/stockholder)-

Related Party Receivables are only accepted as a current asset if the related party submits a guaranty agreement and a financial statement which shows they have the ability to pay the receivable within a year.

Monetary Limit Calculation

10 Times the lesser of total Working Capital and total Net Worth.

Working Capital = Total Current Assets minus Total Current Liabilities

Net Worth= Total Assets minus Total Liabilities

Example: Monetary limit of \$1,000,000 - Must show Working Capital and Net Worth of at least \$100,000

Unlimited – Requires a minimum of \$300,000 in both Working Capital and Net Worth

Example Monetary Limit Calculation

This example contains a summary balance sheet for illustrative purposes; a summary balance sheet is not acceptable for complying with the boards requirements.

Contractor's Financial Statement (*Sample*)

XYZ Contractor Company (name must be exactly as licensed)		
Balance Sheet		
MM/DD/YYYY		
Assets		
Current Assets		\$14,000
Non-Current Assets		<u>20,000</u>
Total Assets		34,000
Liabilities		
Current Liabilities		16,000
Long-Term Liabilities		<u>10,000</u>
Total Liabilities		26,000
Equity (Net Worth)		<u>8,000</u>
Total Liabilities and Equity		34,000

Working Capital = \$14,000 – 16,000 = **(2,000)** (Parenthesis around number denotes a negative value)

Net Worth = \$34,000 – 26,000 = **8,000**

Sample of Supplemental Financial Statement to support monetary limit. (Guaranty Agreement must be properly filled out)

John and Jane Doe (must complete Guaranty Agreement)		
Balance Sheet		
MM/DD/YYYY		
Assets		
Current Assets		\$ 4,000
Non-Current Assets		<u>220,000</u>
Total Assets		224,000
Liabilities		
Current Liabilities		13,000
Long-Term Liabilities		<u>140,000</u>
Total Liabilities		153,000
Equity (Net Worth)		<u>79,000</u>
Total Liabilities and Equity		224,000

Working Capital = \$4,000 – 13,000 = **(9,000)** (Parenthesis around number denotes a negative value)

Net Worth = \$224,000 – 153,000 = **79,000**

The working capital is taken at full value and the net worth is accepted at 50%, both are added to overall values.

The Contractor also submitted a properly completed Letter of Credit from a Bank for **\$100,000**.

This letter of credit is reduced by 50% due to a negative contractor's working capital.

Total Working Capital = **(2,000) + (9,000) + 50,000** (50% of Line of Credit) = **\$39,000**

Total Net Worth= **\$8,000 + 39,500** (50% of Personal Financial statement) = **\$47,500**

These values support a maximum Monetary Limit of **\$390,000** (10 times lesser of W/C and N/W)

SUPPLEMENTAL FINANCIAL INFORMATION

MONETARY LIMIT

- Contractors with limits of **\$1,500,000 OR LESS** may prepare their own financial statement.
- If your monetary limit is **GREATER THAN \$1,500,000**, you **MUST** attach your CPA's or Licensed PA's **REVIEWED OR AUDITED** financial statement.

FINANCIAL STATEMENT'S must be submitted in the **EXACT** name as licensed. If you are licensed as John Doe Construction Company LLC, your financial statement must be in the name of John Doe Construction Company LLC.

MONETARY LIMIT; Your financial statement must show 10% of your monetary limit in working capital and 10% of your monetary limit in net worth. For example, a \$1,000,000 license requires a working capital of at least \$100,000 and a net worth of at least \$100,000. **WORKING CAPITAL** is current assets minus current liabilities; **NET WORTH** is total assets minus total liabilities. An unlimited license requires a working capital of at least \$300,000 and a net worth of at least \$300,000. The monetary limit cannot automatically be increased; must submit revision request. (TCA 62-6-116; Rule 0680-1-.15)

LINE OF CREDIT (LOC) may be used to supplement working capital, only. Must be in our format, on Bank's letterhead, exact name as licensed, and the original. If your financial statement shows a negative working capital, only 50% of the LOC (*do not add to financial statement*) amount will be used. (TCA § 62-6-116/ Rule 0680-1-.13)

GUARANTY AGREEMENT with a personal financial statement may be used to supplement financial statement. However, only 50% may be used. NOTE: The Guaranty must be signed by both husband and wife, and notarized. If your financial statement does not support your limit, you will be notified by mail to submit additional information or accept a lower license limit. Companies owned by another entity, the **Parent** company must supply financial statement with Guaranty. (TCA § 62-6-116; Rule 0680-1-.13)

LIFE INSURANCE CASH VALUE proof is needed if this amount is needed to support working capital and impacts 50% or more of the total, unless the statement is prepared by a CPA.

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GUARANTY AGREEMENT
**(Required with supplemental financial statements to increase working capital or net worth
or by parent companies indemnifying subsidiaries)**

I/we, the undersigned person(s), natural or corporate, do hereby pledge and agree to guarantee the debts and obligations of the within named contractor for all debts and obligations arising out of the contracting activities of the Contractor as defined by TENNESSEE CODE ANNOTATED, section 62-6-101.

I/we the undersigned Guarantors agree and contract to pay any and all debts and obligations of said Contractor as provided for above should they fail and refuse to pay and/or default on same.

I/we the undersigned Guarantors, agree to furnish and supply the Board with any and all financial reports, statements and information to which they may request in order to provide evidence of my/our financial security and stability.

I/we understand and agree that where the words "indemnities" appear in Rule #0680-1-.13 of the rules of the Board, it shall be in reference to this document, its title and wording to the contrary.

This document and the obligation undertaken shall expire and shall become null and void upon expiration of any license granted the Contractor by the Board or upon joint request, in writing, of the undersigned Guarantors and the Contractor, with the approval of the Board, provided, however, that any and all debts and obligations for, or arising out of work in process, upon the expiration, nullification and/or cancellation of this agreement, shall be covered and the Guarantor(s) herein shall remain liable for same.

This **GUARANTY AGREEMENT** is being executed at the request of: **License ID# 000**_____

(NAME AS ON LICENSE)

the contractor to which this document is applicable for the express purpose of providing additional financial security and stability to, and for, said Contractor in order that they may obtain a license to engage in contracting in the State of Tennessee, Board for Licensing Contractors.

* * *

<p>Name of Guarantor <i>(Entity name(s) listed on supplemental financial statement)</i></p> <p>*Print Name: _____</p> <p>Title: _____</p> <p>_____</p> <p>*Signature of Corporate Official or **Personal Guarantor</p> <p>_____</p> <p>** Signature of Additional Personal Guarantor or Spouse</p> <p>_____</p> <p>*As a corporate official, I am fully authorized to bind and obligate corporation to the terms and conditions of this document as stated herein.</p>	<p>Signatures</p> <p>◆ Corporate Guaranty – Must be signed by Authorized Corporate Official.</p> <p>◆◆ Personal Guaranty – Must be signed by all persons named on the Personal Financial Statement.</p> <p><i>(Attach Guaranty to Supplemental Financial Statement)</i></p>
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NOTARIZE

Affirmed/witnessed and subscribed before me this _____ day of _____, 20_____.

Notary Public Signature

- Seal -

My Commission Expires: _____

◆Corporate financial statement of entity submitted with the corporate official's signature is required.

◆◆ Personal financial statements submitted with the personal guarantor(s) signature are required by all persons named on financial statement, such as partners, spouse, etc.

LINE OF CREDIT

TO BE WRITTEN ON BANK, SAVINGS & LOAN LETTERHEAD
(May be used to supplement Working Capital)

DATE

TO: **CONTRACTOR LICENSED NAME** (*Individual, Corporation, Partnership or LLC*)
Address
City, State and Zip

RE: Contractor's License ID# 000 _____

Dear Contractor:

You have requested of (Name of Bank, Savings & Loan (FDIC approved)) to establish a line of credit which will be available to (Name as on License) for use in conducting the contracting business for which a license is being sought from the State of Tennessee Board for Licensing Contractors.

We hereby establish a line of credit for these purposes in the amount of \$(Dollar Amount), which will be maintained for a period of one (1) year from the date of license issuance, subject to no adverse change in your financial condition.

As a condition of this arrangement, it is our understanding you will inform us and the Board for Licensing Contractors of any significant change(s) in your financial condition during the term of this commitment.

We the undersigned will endeavor to notify the Board for Licensing Contractors should we become aware of any significant change(s) in financial conditions of the above named applicant.

The undersigned hereby agrees to notify the Board for Licensing Contractors should we withdraw and/or eliminate the above named applicant's credit line.

By _____
Name Title

SAMPLE LETTER -- FOR BANK USE ONLY

Contractor Instructions

- To increase the working capital, a contractor may take this **SAMPLE** "Line of Credit" (**LOC**) form to their bank.
- The LOC does not increase the net worth. (*DO NOT add to Financial Statement!*)
- If a contractor's working capital is negative, only 50% of the LOC's value is applied
- The LOC is for the contractor's use and may be utilized at any time by the contractor
- This **format's exact wording must be used** in order for the Board to consider accepting
- Original LOC document must be submitted; copies are not acceptable
- Name on LOC must be in the **EXACT NAME** as on the license and financial statement
- Lending institution must be a bank, savings and loan, which is FDIC approved
- Confirm the name and license ID number of the licensee at: <http://verify.tn.gov/>

CHECKLIST

Renewal placed in pending for one or more of the following and cannot be renewed until complying with financial statement requirements:

- ☐ Monetary Limit on license requires a "Reviewed" or "Audited" financial statement prepared by a CPA;
- ☐ Financial statement submitted shows a negative working capital and/or negative net worth and does not qualify to lower limit;
- ☐ Working Capital and/or Net Worth does not support current monetary limit;
- ☐ Failed to supply a financial statement;
- ☐ Line of Credit needed to supplement working capital;
- ☐ Personal financial statement needed to increase net worth and/or working capital, at 50% value;
- ☐ An additional "Line of Credit" is needed to increase working capital
- ☐ An additional "Line of Credit" is needed due to not being in the Board's exact format by the Bank;
- ☐ Name on Financial Statement must be in the exact name as licensed;
- ☐ Certain Items could not be counted as current assets and decreased working capital;

☐ Other: _____

1. Monetary Limit: _____; attach one of the following:

- ☐ *REVIEWED OR AUDITED FINANCIAL STATEMENT PREPARED BY CPA/PA
- ☐ CONTRACTOR SELF-PREPARED FINANCIAL STATEMENT OR COMPILED BY CPA/PA

*If monetary limit is more than \$1,500,000 to Unlimited, must attach a "reviewed" or "audited" financial statement which supports monetary limit; or may **lower limit (see page 9) to the lesser of working capital and net worth.

WORKSHEET - FORMULA FOR DETERMINING MONETARY LIMIT LICENSEE FINANCIAL STATEMENT:

CURRENT ASSETS _____	TOTAL ASSETS _____
CURRENT LIABILITIES _____	TOTAL LIABILITIES _____
WORKING CAPITAL _____	NET WORTH _____

SUPPLEMENTAL FINANCIAL STATEMENT(S) MAY BE UTILIZED AT 50%:

(Must Include Guaranty Agreement in order to Utilize)

A. Company/Personal Financial Statement of _____ Date _____

Current Assets _____	Total Assets _____
Current Liabilities _____	Total Liabilities _____
Working Capital _____	Net Worth _____
50% of W/C _____	50% of N/W _____

B. Line of Credit in the amount of \$ _____ (may be used at 100% value unless there is a negative working capital)

TOTALS – COMBINED:

WORKING CAPITAL \$ _____ NET WORTH \$ _____

3. Ten (10) times the lesser of working capital and net worth support the following monetary limit \$ _____ - Working Capital and Net Worth must be: _____

CONTRACTOR'S BALANCE SHEET

License #:

License Name:

(The name on the balance sheet must match exactly with your license name)

Address

Mode of Operation _____ **Sole Proprietor** _____ **Corporation** _____ **LLC** _____ **Partnership**
Financial Statement as of _____, 20____ **(MUST**
Date (mm/day/yr) _____ **(Month)** _____ **(Day)** _____ **(Year)** _____ **(MUST**
LIST DATE!!)

CURRENT ASSETS		Dollars Only	
	Cash on hand and in the Bank		
	Accounts Receivable (Within 1 year)		
	Trade		
	Employees		
	Other: (Itemize)		
	Costs in excess of billings on uncompleted contracts		
	Marketable Securities, Stocks, and Bonds		
	Inventories- Materials or Houses Built or Developed Lots for Sale		
	Retirement Plans (IRA; 401K; Profit Sharing) *Generally Only for Personal Financials		
	Cash Surrender Value of Life Insurance (Not Face Value) [May be required to supply documentation]		
	Prepaid Expenses (Insurance, Taxes, Interest, Rents, Other)		
	Other: (Itemize)		
A	Total Current Assets		
NON-CURRENT ASSETS			
	Accounts Receivable (amounts not due within 1 year)		
	Related Party Receivables		
	Long Term Investments		
	Land		
	Depreciable Assets		
	Buildings		
	Equipment		
	Tools		
	Vehicles		
	Other: (Itemize)		
B	Total Assets		
CURRENT LIABILITIES			
	Credit Cards (Balance)		
	Accounts Payable (Amount Due Within 1 Year)		
	Accrued Salaries and Wages		
	Billings in excess of costs (uncompleted contracts)		
	Equipment Encumbrances (Amount Due Within 1 year)		
	Real Estate Encumbrances (Amount Due Within 1 year)		
	Line of Credit (Balance)		
	Other: (Itemize)		
C	Total Current Liabilities		
LONG TERM LIABILITIES			
	Accounts Payable (Amount Due After 1 Year)		
	Equipment Encumbrances (Amount Due After 1 year)		
	Real Estate Encumbrances (Amount Due After 1 year)		
	Stockholder Payable		
	Other: (Itemize)		
D	Total Liabilities		
E	NET WORTH		
D + E	Total Liabilities and Net Worth		

Working Capital = A – C = \$ _____ Net Worth = B – D = \$ _____
 Note: 10 times the lesser of working capital and net worth must support limit (Same as E)



**STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
BOARD FOR LICENSING CONTRACTORS**

Mailing Address: 500 JAMES ROBERTSON PARKWAY
NASHVILLE, TENNESSEE 37243-1150
TELEPHONE: 800-544-7693 OR (615) 532-3985 OR FAX (615) 532-2868
[http://tn.gov/commerce/boards/contractors/
Contractor.Renewal@tn.gov](http://tn.gov/commerce/boards/contractors/Contractor.Renewal@tn.gov)

LOWER LIMIT REQUEST

1. **Contractor's License ID# 000** _____
2. **Contractor's License Name:** _____
3. **I agree to lower the contractor's license monetary limit to \$** _____

I understand that by agreeing to lower the monetary limit of the contractor's license, in order to obtain a future increase, this licensed entity must complete the license revision increase request, which requires a "Reviewed" or "Audited" financial statement prepared by an actively licensed CPA/PA. A revision request must be reviewed by the Board at their regularly scheduled meetings before the limit may be increased.

Name: _____
(Print name of authorized owner/officer) (Title)

*Signature: _____
(Date)

**Must be signed by an Owner, Officer or other individual fully authorized to bind and obligate the entity to the terms of this document.*

Note: Contractor's not currently performing work may place the license in retirement (inactive status) in lieu of completing the renewal process. See website for retirement application and instructions.